COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1936-02
Bill No.: Perfected HCS for HB 840
Subject: Aircraft and Airports; Boards, Commissions, Committees, Councils; Business and Commerce; Cities, Towns and Villages;
Type: Original
Date: April 6, 2011

Bill Summary: This proposal creates the Aerotropolis Trade Incentive and Tax Credit Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(Unknown greater than $3,755,364)	(Unknown greater than $13,366,761)	(Unknown greater than $23,568,587)
Total Estimated Net Effect on General Revenue Fund	**(Unknown greater than $3,755,364)**	**(Unknown greater than $13,366,761)**	**(Unknown greater than $23,568,587)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**3 FTE**	**3 FTE**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government*	**$0**	**$0**	**$0**

***Note Revenues and expenses net to zero.**

FISCAL ANALYSIS

ASSUMPTION

In response to the previous version of this legislation, officials at the **Budget and Planning** (**BAP**) assume the proposed legislation should not result in additional costs or savings to BAP. The proposal contains tax credits and tax exemptions that will have an unknown impact that is greater than an aggregate of $480 million from 2012-2026.

BAP assumes sections 135.1507 & 1511state qualifying transporters are eligible to receive air export tax credits based on shipment weights. The total amount of credits available is $60 million. This proposal may reduce general and total state revenues by $3.6 million in FY12, $4.2 million in FY13, and $5.4 million in FY14, and an unknown amount in the following years until the cap is reached.

BAP assumes section 135.1513 will reduce general and total state revenues an unknown amount.

BAP assumes section 135.1517 states the total amount of owner credits for eligible costs shall not exceed $300 million. Credits issued cannot exceed $6million in CY13, $12 million in CY14, $15million in CY15, $20 million in CYs 16-19, $30 million in CYs 20-25, and $7 million in the final year. This proposal will reduce general and total state revenues in corresponding amounts in the appropriate fiscal years.

BAP assumes the total amount of owner credits for eligible interest costs shall not exceed $120 million. Credits issued cannot exceed $3million in CY13, $6 million in CY14, $9 million in CY15, $10 million in CYs 16-25,and $2 million in the final year. This proposal will reduce general and total state revenues in corresponding amounts in the appropriate fiscal years

This proposal may encourage other economic activity. BAP cannot estimate the induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume this proposal establishes the Aerotropolis Trade Incentive and Tax Credit Act to encourage foreign trade and requires the DED to administer the tax credit program. DED assumes a negative fiscal impact in excess of $100,000. DED would require two additional FTE's to administer the program due to the anticipated amount of administration involved. Both FTE's would be Economic Development Incentive Specialist III's and would be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards, and ensuring compliance with the program.

ASSUMPTION (continued)

The proposal authorizes the City of St. Louis or any county to designate gateway zones. The air export tax credit is a 30% credit with an aggregate fiscal year cap of $60 million. Freight forwarders are required to file an application with DED in order to receive the tax credits which are based on the weight and type of freight. These credits may be carried forward. The act requires DED to establish procedures to allow freight forwarders to receive air export tax credits within five business days of the departure of the qualifying flight.

The second type provides incentives for owners and tenants of qualifying facilities located in a gateway zone in the form of tax credits, retained withholdings taxes and/or tax exemptions. The aggregate calendar year cap is $300 million, based on the eligible costs of the qualifying facility. Owners of eligible facilities are also entitled to receive tax credits over a three year period equal to 75% of a loan, provided the loan has a rate equal to or less than 7% per year. It provides for an aggregate calendar year cap totaling $120 million, based on the interest rate for the loan. The tax credits may be carried forward for six years and are transferable. There is an automatic sunset of 6 years from the effective date of the act unless it is re-authorized.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $12,900.

Officials at the **Department of Revenue** (**DOR**) assume they will need to make form changes and programming changes to various tax systems. The department's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at $53,424, which is 2,016 FTE hours.

DOR assumes they may promulgate rules to implement the provisions of sections 135.1500 to 135.1521.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

DOR's Personal Tax Division assumes the need of one revenue processing technician I per 4,000 tax credits claimed. DOR's Corporate Tax Division assumes the need of one revenue processing

ASSUMPTION (continued)

technician I per 6,000 additional tax credit redemptions and one revenue processing technician I per 7,800 pieces of additional withholding correspondence processed.

Oversight has, for fiscal note purposes only, changed the starting salary for the revenue processing technician I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months of FY 2010 and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes that only one FTE would be needed by DOR. Should DOR experience a measurable increase in the number of calls and correspondence as a direct result of this proposal then they can request the additional FTE in future budget requests.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** (**DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the

ASSUMPTION (continued)

office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes the creation of this program could have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposals and will not reflect them in the fiscal note.

This proposal could result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Cost - Dept Economic Development			
Personal Service	($67,020)	($81,228)	($82,041)
Fringe Benefits	($35,078)	($42,515)	($42,940)
Equipment and Expense	($19,053)	($7,605)	($7,833)
Total Cost- DED	($121,151)	($131,348)	($132,814)
FTE Change - DED	2 FTE	2 FTE	2 FTE
Cost - Dept of Revenue			
Personal Service	($18,900)	($22,907)	($23,136)
Fringe Benefits	($9,892)	($11,990)	($12,109)
Equipment and Expense	($5,421)	($516)	($528)
Total Cost- DOR	($34,213)	($35,413)	($35,773)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
Loss - Dept. Economic Development air export tax credit	(Up to $3,600,000)	(Up to $4,200,000)	(Up to $5,400,000)
Loss - Dept Economic Development income and franchise taxes withheld	$0	(Unknown)	(Unknown)
Loss - Dept Economic Development owner tax credit for eligible costs	$0	(Up to $6,000,000)	(Up to $12,000,000)
Loss - Dept Economic Development owner tax credit for interest costs	$0	(Up to $3,000,000)	(Up to $6,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Unknown greater than $3,755,364)**	**(Unknown greater than $13,366,761)**	**(Unknown greater than $23,568,587)**
Estimated Net FTE Change on General Revenue	3 FTE	3 FTE	3 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GATEWAY ZONE FUNDS			
Revenue - special assessment	Unknown	Unknown	Unknown
Cost - advertising of gateway zone	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GATEWAY ZONE FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could impacted by this proposal.

FISCAL DESCRIPTION

This act establishes the Aerotropolis Trade Incentive and Tax Credit Act, which authorizes the City of St. Louis or any county to designate certain areas as gateway zones. Any such municipality that designates an area as a gateway zone will be required to establish a board of supervisors that will annually levy special assessments on facilities located within the zone which receive benefits provided under the act. Revenues derived from the special assessments will be expended to promote and advertise the gateway zone.

For all taxable years beginning on or after January 1, 2011, the act authorizes air export tax credits for freight forwarders in an amount equal to twenty-five cents per chargeable kilo shipped on a qualifying outbound flight. In lieu of the previously mentioned tax credit, a freight forwarder will be entitled to an air export tax credit equal to thirty cents per chargeable kilo if the shipment contains perishable freight. The department of economic development is required to adjust the tax credit amounts based upon fluctuations in fuel costs for over-the-road transportation. In order to receive air export tax credits, freight forwarders must file an application with the department containing the master airway bill for the shipment. The act requires the department to establish procedures to allow freight forwarders to receive air export tax credits within five business days of the departure of the qualifying flight.

The total amount of air export tax credits which may be authorized under the act cannot exceed sixty million dollars. The act establishes fiscal year caps on issuance of air export tax credits, FISCAL DESCRIPTION (continued)

and to the extent that in any given fiscal year more tax credits are authorized than may be issued, the amount in excess of the cap on issuance will be carried forward for issuance in the following fiscal year. The authorization of air export tax credits is prohibited after January 1, 2019, but the act allows for the subsequent issuance of any tax credits which are authorized prior to such date.

The act provides incentives for owners and tenants of qualifying facilities located within a gateway zone in the form of tax credits, retained withholdings taxes, and income and corporate franchise tax exemptions. For all taxable years beginning on or after January 1, 2013, any tenant or entity operating within an eligible facility which satisfies the requirements of the act will be entitled to an exemption from state income and corporate franchise taxes for a period of up to seven years. Such a tenant or entity will also be entitled to retain fifty percent of employee withholding taxes for a period of up to seven years.

For all taxable years beginning on or after January 1, 2013, owners of qualified facilities, in which at least sixty percent of the total cargo activity consists of international cargo, will be entitled to receive tax credits over a seven-year period equal to five percent of the eligible costs of such facility. The total amount of tax credits issued to such an owner cannot exceed twenty-five percent of the facility's eligible costs. Owners of qualified facilities, in which at least thirty percent of the total cargo activity consists of international cargo, as well as any qualifying assembly and manufacturing, or qualifying cold-chain facility will be entitled to receive tax credits over a seven-year period equal to three percent of the eligible costs of such facility. The total amount of tax credits issued to such an owner cannot exceed fifteen percent of the facility's eligible costs. Owners of eligible facilities will also be entitled to receive tax credits over a three-year period equal to seventy-five percent of a loan, provided the total loan amount is for no more than sixty percent of the eligible costs of the facility and has a rate equal to or less than seven percent per year.

In order to receive tax incentives provided under the act, owners and tenants of qualifying facilities must file applications with the department of economic development accompanied by a certificate of compliance. The act establishes limits on the amount of tax credits which may be issued annually to owners and tenants of qualifying facilities. No more than three hundred million dollars in tax credits, based upon the eligible costs of a qualifying facility, may be authorized for owners and tenants of qualified facilities under the act. The act limits the total amount of tax credits which may be authorized to owners and tenants of qualifying facilities, based upon loans, to no more than one hundred twenty million dollars.

All tax credits provided under the act will be fully transferrable and non-refundable, but may be carried forward up to six years.

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FISCAL DESCRIPTION (continued)

The provisions of the act will automatically sunset six years from the effective date of the act unless re-authorized.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of the Secretary of State

Mickey Wilson, CPA
Director
April 6, 2011

JH:LR:OD